

FY 2018 PROPOSED OPERATING BUDGET & FY 2018 – 2022 CAPITAL IMPROVEMENT PROGRAM

Bonnie Surcek, City Manager
MARCH 14, 2017



Introduction

- Today, I present to you a *Proposed Budget* that builds off of last year's *Budget Message*: "...finding the funding to do everything desirable or even necessary is the major fiscal challenge facing the City. There are a limited number of ways to address the issue: taxes may be raised, services may be cut or less expensive delivery mechanisms developed."
- This budget incorporates a pathway for developing less expensive delivery systems and increased taxes to address Council priorities.
- There are no service delivery cuts proposed in this budget.



FY 2018 Overview

- FY 2018 Budget includes the General, Fleet, Airport, Water, Sewer, Stormwater, and other minor funds as well as the Capital Improvement Program (CIP)
- For comparison, the FY 2018 Proposed Budget and CIP totals \$375.9 million versus the FY 2017 Adopted Operating Budget and CIP of \$352.2 million



FY 2018 Overview

- Recent real property assessment has not exhibited any measureable increase in property values
- Major taxes such as sales, business license, consumer utility and personal property are projected to be relatively even with FY 2017 projections



PROPOSED

*FY 2018 Operating Budget
FY 2018-2022 Capital Improvement Program*





FY 2018 Overview

- FY 2018 budget was built with a relatively flat, yet stable, revenue environment offset by increasing operating and capital improvement needs
- Other key needs include addressing improved education outcomes and a reduction in households living in poverty





City Council Vision & Priorities

- Lynchburg, Virginia: “A Great Place to Live, Work and Play!” November 2016 Council Retreat

Focus Areas

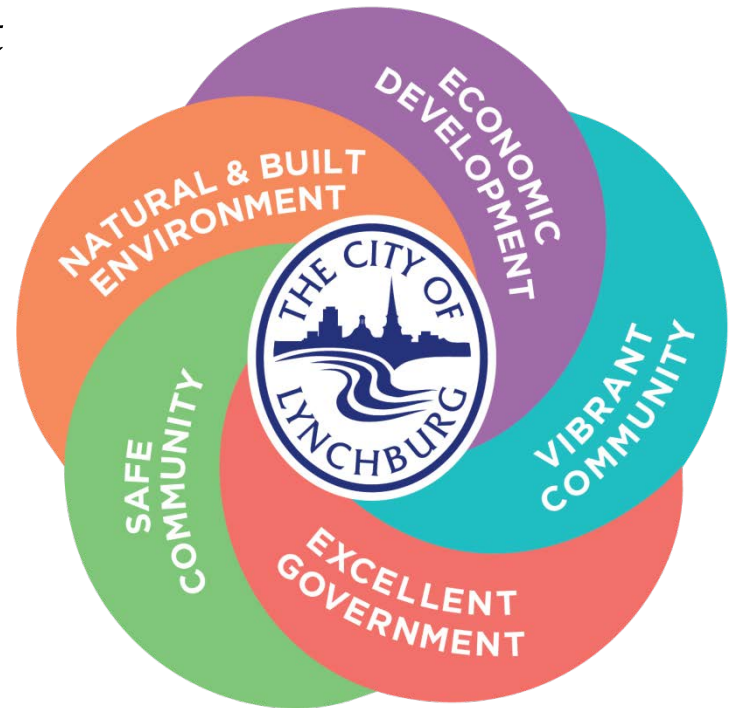
- ❖ Economic Development
- ❖ Infrastructure
- ❖ Poverty
- ❖ Workforce Development
- ❖ Succession Planning/Recruitment and Retention
(Internal Focus Area)



Strategic Plan

- Strategic Plan Refreshed
 - ❖ Channeling twelve pillars into 5 core strategic areas that are aligned with the National Citizen Survey that will be administered later this year
 - ❖ Work in progress
 - ❖ Foundation for FY 2019 budget development
 - ❖ Citizen and employee engagement

*A Great Place to
Live, Work and Play*





Lean/Six Sigma Process Improvement

- Cross-departmental team learning private sector principles to apply to internal processes to improve efficiency and save time and money
- \$75,000 proposed for continued training and implementation of process improvements





Open Data

- \$50,000 to purchase cloud based software to improve our financial transparency for citizens to review on multiple communication tools – tablets, smartphones, and social media





Budget Instructions

- Requested 2.5% decrease from City departments
 - Waiver opportunity

Sampling of Consequences of 2.5% reduction

- ❖ Eliminate 3 full-time police officers and disband the Community Action Team
- ❖ Eliminate 7 entry level firefighters and place a medic unit out of service
- ❖ Eliminate City sponsorship of special events
- No service reductions are proposed nor are any tax increases proposed for ongoing service delivery



The FY 2018 Budget in Brief

- Budget Gap – The initial gap between projected FY 2018 revenues and submitted operating expenditures was \$4.7 million-- \$3.7 million of which was directly attributable to the request from Lynchburg City Schools
- Without the Schools proposal, the gap in General Fund operating expenditures would have been only \$1.0 million





The FY 2018 Budget in Brief

- Non-Dedicated Revenues – total \$144.7 million, an increase of approximately \$1.2 million, or slightly less than a one percent (0.8%) increase, from the *Adopted FY 2017 Budget*
- Dedicated Revenues – in the *Proposed FY 2018 Budget* total \$38.4 million, approximately \$1.5 million, or slightly over four percent (4.1%), more than the current year



The FY 2018 Budget in Brief

- Real Property Taxes are projected to total \$58.2 million, an increase of approximately \$246,339 or less than one half of one percent (0.4%), from the Adopted FY 2017 Budget, without a tax increase. Since this is a year that reflects a reassessment, it is disappointing that our real estate values have remained relatively flat.





The FY 2018 Budget in Brief

- Real Property Tax revenue projections are adjusted for a historically uncollectible percentage of two percent (2.0%, about \$1.2 million), rehabilitation tax credits (\$675,000) and tax relief for the elderly (\$700,000)



The FY 2018 Budget in Brief

- The Assessor's Office has projected the total real estate value of property in the City of Lynchburg to be nearly seven billion dollars. This is an increase of approximately \$67.9 million from last year.
- Over twenty-three percent (23.6%) of real estate in the City is tax-exempt.
- The total assessed value of taxable real property in the City is estimated to be just over \$5.2 billion as of July 1, 2017, about \$51.9 million more than the previous year.



REAL PROPERTY TAX PROPOSED INCREASE

For Infrastructure Maintenance and Replacement

\$0.05 per \$100 of assessed value (\$1.11 to \$1.16)

Projected to generate \$2,562,643

(Property valued at \$150,000 would be \$18.75 per quarter)

LODGING TAX PROPOSED INCREASE

For Infrastructure Maintenance and Replacement

**2.0% increase from 5.5% to 7.5% including
the current \$1 per room per night**

Projected to generate \$692,000



MEALS TAX PROPOSED INCREASE

For Improved Education Outcomes and Poverty Reduction

0.5% increase from 6.5% to 7.0%

Projected to generate \$1,100,000



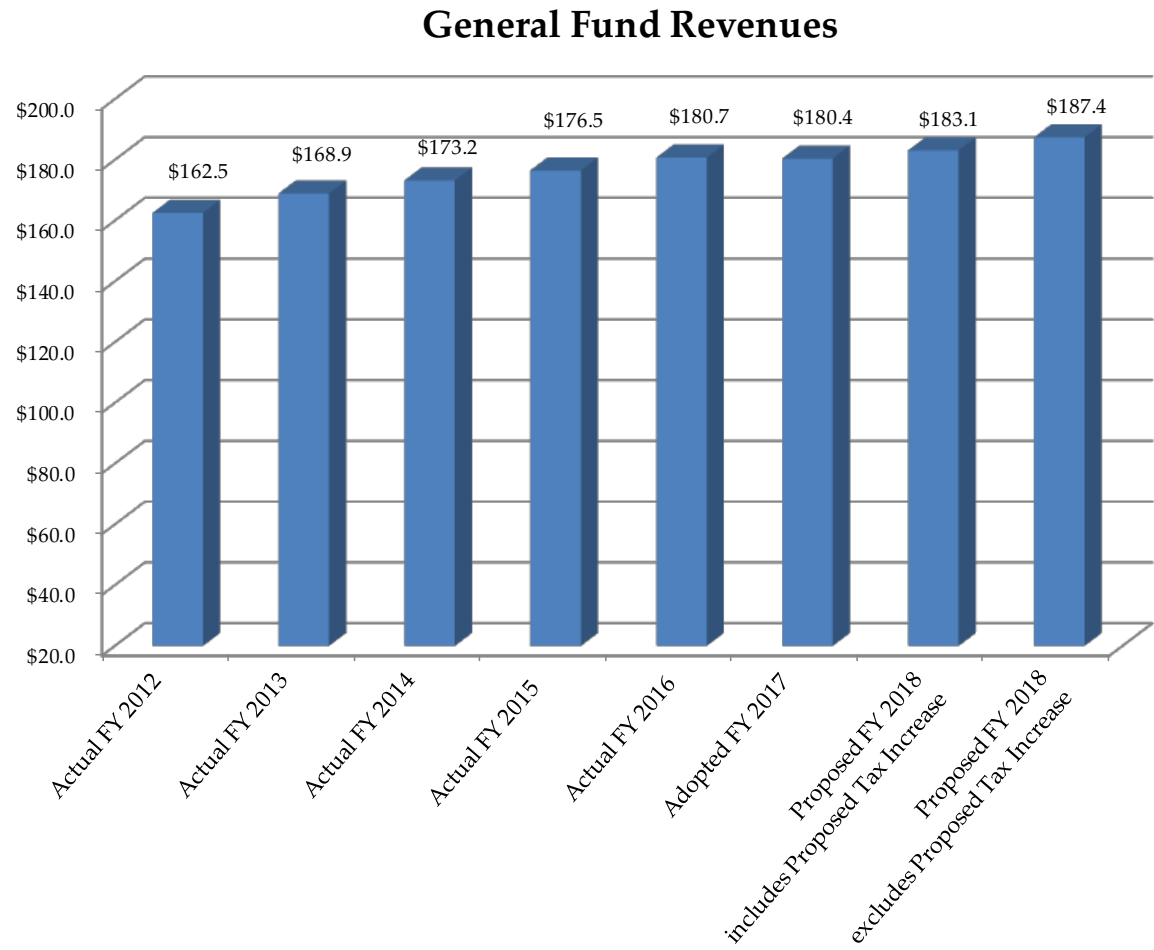
The FY 2018 Budget in Brief

- Meals Tax revenues are projected to grow nearly ten percent (9.6%) to \$15.8 million in FY 2018
- Without the proposed one-half percent increase, Meals Tax are projected to increase from \$14.4 million in FY 2017 to \$14.7 million in FY 2018 or 1.9%
- Again, the one-half percent increase would be dedicated to a Reserve for Improved Education Outcomes and Poverty Reduction



The FY 2018 Budget in Brief

- Overall, General Fund Revenues are projected to increase by 1.5% without any tax revenue increases
- General Fund Revenues are projected to increase 3.9% with the proposed tax increases previously noted





The FY 2018 Budget in Brief

Expenditures

- With no proposed tax increases, total proposed expenditures, reserves, and transfers would increase to \$186,332,417, or 0.4% from the FY 2017 Adopted Budget of \$185,674,530
- With the proposed increases in the taxes previously noted, total proposed expenditures, reserves, and transfers would increase to \$190,687,060, or 2.7% from the Adopted FY 2017 Budget of \$185,674,530



The FY 2018 Budget in Brief

Significant Changes from FY 2017

- An increase in local funding for the operation of Lynchburg City Schools (\$1,174,459) is proposed
- Of this amount, \$602,500 is included to fund the full year of the 2% salary increase effective January 1, 2017 and \$571,959 is included to fund a rate increase by the Virginia Retirement System
- Of the Schools request for \$3.7 million in new funding, approximately \$1.2 million is funded
- Lynchburg City Schools are getting \$1.1 million in additional funding from the Commonwealth in FY 2018



The FY 2018 Budget in Brief

Significant Changes from FY 2017

- Approximate increase of \$300,000 in Highway Maintenance Funds
- Additional funding for the Greater Lynchburg Transit Company (\$100,000); \$250,000 was requested
- A third year of compensation adjustments to improve the market competitiveness in Parks & Recreation and Social Services is funded (\$250,000)



The FY 2018 Budget in Brief

Significant Changes from FY 2017

- Increased funding for the Public Works department to provide structure and individual market adjustments to improve recruitment and retention (\$185,000)
- Funding for a consultant to perform a Citywide Compensation and Implementation Study (\$100,000)
- Funding for \$200,000 to continue the Recycle Hauling Services



The FY 2018 Budget in Brief

Significant Changes from FY 2017

- Restoration of \$59,476 for Parks and Recreation Special Event Sponsorships and a slight increase in funding of \$18,000
- Funding for a Communications and Marketing Strategic Plan (\$25,000) and restoration of (\$12,580) for Public Relations
- Reduced contribution to the Lynchburg Regional Business Alliance (\$25,000)





The FY 2018 Budget in Brief

Significant Changes from FY 2017

- Schools Maintenance and Replacement Capital projects (\$498,000) are proposed to be funded with the FY 2017 Third Quarter Adjustments as a transfer from remaining Heritage High School project funds. School bus replacements (\$1,185,000) are also proposed to be funded from these remaining project funds (\$1,683,000)





The FY 2018 Budget in Brief

Personnel Changes

- Three (3) additional Full-Time Equivalent (FTE) positions in the General Fund and one (1) in the Water Fund in Water Resources are proposed
- An Assistant City Attorney position is funded beginning January 1, 2018. This position will assist with caseload and contribute to long term succession planning. (\$42,551)





The FY 2018 Budget in Brief

Personnel Changes

- Funding for an Economic Development Coordinator in the Office of Economic Development is proposed to assist in business recruitment, retention, and entrepreneurship support which contribute to building the City's tax base. The cost of this position is partially offset by a \$25,000 reduction in the City's contribution to the Lynchburg Regional Business Alliance (LRBA). The City's contribution to the LRBA for marketing outside the City will decrease from approximately \$98,000 to \$73,000. (\$52,405)



The FY 2018 Budget in Brief

Personnel Changes

- One (1) Business Compliance Auditor in the Commissioner of the Revenue's Office is proposed to perform tax (meals, business license, etc.) audits. This position was eliminated from the budget several years ago due to budget constraints. (\$63,286)
- Funding for a part-time Code Compliance Inspector in Community Development. The position cost would be partially offset by revenue (\$12,500) from the Vacant Building Registration program. (\$35,714) with a net cost of \$23,214)



The FY 2018 Budget in Brief

Personnel Changes

- The proposed budget also continues funding for one (1) position that City Council approved outside of the annual budget process; a Deputy Clerk I for the Clerk of the Circuit Court was approved by Council earlier this year.
- One (1) new position is proposed in the Water Fund: a Civil Engineer II to assist in the very technical project management of complex water – related infrastructure projects.



The FY 2018 Budget in Brief

Other Changes of Note

- The proposed budget utilizes no Managed Vacancy Savings for balancing. Any savings realized from less than full employment of all positions throughout the fiscal year will fall to unrestricted fund balance in order to be available as pay-as-you-go funding for future capital needs. Renewed attention will be given to the use of vacancy funds during the fiscal year
- The Lynchburg Regional Visitors and Convention Bureau, also known as the City's Tourism Department will become a Division of the Office of Economic Development



The FY 2018 Budget in Brief

Local Contribution to City Schools

- Local funding in an amount of \$50.4 million is proposed for Schools Operations (\$42.0 million) and Debt Service (\$8.4 million)
- The proposed budget includes an increase of \$1.2 million in local funding for Schools Operations

A TRADITION OF EXCELLENCE FOR ALL



LYNCHBURG CITY SCHOOLS



The FY 2018 Budget in Brief

Local Contributions to City Schools

- Every year, the State Superintendent's Office publishes information on the local match required by State law to meet the Standards of Quality (SOQ)
- That match is referred to as the Required Local Effort (RLE) and is compared to the actual local expenditures in the annual report



The FY 2018 Budget in Brief

Fiscal Year	Required Local Effort (RLE)	City Funded	% Funded Above RLE	Average Daily Membership (ADM)	Local Per Student Support for Operations
2010	\$15,730,049	\$33,769,049	114.68%	8,372 ¹	\$4,034
2011	\$15,155,956	\$33,195,230	119.02%	8,327 ¹	\$3,986
2012	\$15,255,668	\$31,942,103	109.38%	8,304 ¹	\$3,847
2013	\$16,755,419	\$33,383,248	99.24%	8,108 ¹	\$4,117
2014	\$16,865,432	\$34,293,481	103.34%	8,191 ¹	\$4,187
2015	\$18,769,234	\$36,525,952	94.61%	8,137 ¹	\$4,489
2016	\$18,719,987	\$41,671,770	119.36%	8,173 ¹	\$5,099
2017 Adopted	\$18,376,447	\$41,354,039	125.04%	8,051 ²	\$5,137
2017 Revised	\$18,450,071 ³	\$41,354,039	124.14%	7,988 ³	\$5,177
2018 Proposed	\$18,594,476 ³	\$42,028,498	126.03%	7,967 ³	\$5,275

¹ FY 2016 Comprehensive Annual Financial Report, Table 28; Source: Lynchburg City Schools

² FY 2017 Adopted Budget

³ Superintendent of Public Instruction Memorandum No. 058-17, February 28, 2017



The FY 2018 Budget in Brief

Local Contributions to City Schools

- With a projected enrollment of 7,967 students in FY 2018, local per student support for operations would increase from \$5,177 to \$5,275
- In the *Proposed FY 2018 Budget* total appropriations for Schools, including all activities and funding sources, is estimated to be \$104.3 million
- New Reserve Fund dedicated for improved education outcomes and poverty reduction (\$1.1 million)



The FY 2018 Budget in Brief

Debt Service – On-Time Financing

- It has become clear that we cannot continue to defer major capital projects such as a new consolidated Police Headquarters and major improvements to the General District Court and Circuit Court Buildings



The FY 2018 Budget in Brief

Debt Service – On-Time Financing

- Funding is also needed to perform the necessary environmental impact study and begin design and engineering on the Route 501/221 One-Way Pair Transportation Improvements
 - ❖ Funding these components of the project should position the City to be more competitive for construction funds from the Virginia Department of Transportation SmartScale program in 2019



The FY 2018 Budget in Brief

Debt Service – On-Time Financing

- Long-term financing is also needed for the replacement of Sandusky and renovation of Linkhorne and Paul Munro Elementary Schools





The FY 2018 Budget in Brief

Debt Service – On-Time Financing

- The Proposed FY 2018 Budget includes a \$650,000 Reserve for On-Time Debt Financing
- In an effort to address our long-term capital improvement needs, it is proposed that the City issue a line of credit to finance expenditures for major projects in the proposed *FY 2018 – FY 2022 Capital Improvement Program*
- The line of credit will be used to fund major new capital projects that will be repaid on a structured schedule with future issuance of general obligation bonds



The FY 2018 Budget in Brief

Debt Service – On-Time Financing

- We are referring to this financing approach as “on-time” financing since we will only access the line of credit as funds are needed for these major capital projects
- The City will only pay interest on the use of line of credit funds until such time as we convert to general obligation bond financing



The FY 2018 Budget in Brief

Reserves

- General Fund Reserve for Contingencies - \$1,200,000
- Capital Maintenance Reserve - \$383,833
- Other Post Employment Benefits Reserve (OPEB) - \$250,000
- Fuel Reserve - \$100,000
- Drug Court Program Reserve - \$25,000



The FY 2018 Budget in Brief

Reserves

- Concord Turnpike Landfill Maintenance Reserve - \$50,000
- Long-Term “On-Time” Debt Financing Reserve - \$650,000
- Citywide Compensation and Implementation Study Reserve - \$450,000
- Improved Education Outcomes and Poverty Reduction Reserve - \$ 1,100,000



The FY 2018 Budget in Brief

Fund Balance

- City Council's Financial Management Policies require an Unassigned Fund Balance equal to 10% of General Fund revenues
- In the event the Unassigned General Fund Balance is used to provide for temporary funding of unforeseen emergency needs, the fund balance shall be restored to 10% within three fiscal years



The FY 2018 Budget in Brief

Fund Balance

- The proposed budget provides for a 10.5% fund balance, amounting to \$19.6 million
- It also recommends utilizing \$1.7 million in Unassigned General Fund Balance for pay-as-you-go capital improvements compared to \$3.2 million in FY 2017



The FY 2018 Budget in Brief

Human Resources Highlights

- No general wage increase
- No increase in medical premiums
- \$100,000 proposed for a comprehensive compensation and implementation study
- No increase in Virginia Retirement System (VRS) contributions
- Concern with recruitment and retention throughout the City



The FY 2018 Budget in Brief

Capital Fund

- Our City is at a crossroads regarding the maintenance and replacement of its built environment





The FY 2018 Budget in Brief

Capital Improvement Program – Major Projects

Police Headquarters, General District and
Circuit Court Buildings





The FY 2018 Budget in Brief

Capital Improvement Program Projects

- City Schools
- Parks, streets, and bridges
- Routine maintenance in existing public buildings (painting, carpet replacement, HVAC)





The FY 2018 Budget in Brief

Capital Improvement Program

- Proposed capital project appropriations total approximately \$24.7 million in FY 2018 for the City Capital Fund including contributions for major building repairs and roof replacements
- In addition, FY 2018 Schools projects are programmed to be funded from remaining Heritage High School project funds



The FY 2018 Budget in Brief

CIP – “Pay-As-You-Go”

Proposed FY 2018 Budget - \$4.7 million

Buildings		Parks and Recreation	
Major Building Repairs and Improvements	\$1,260,270	Creekside Trail Swinging Bridge Replacement	\$275,000
Monument Terrace Building Improvements (Multiple Projects)	157,190	Miller Park/Fort Avenue Retaining Wall Restoration	356,000
Parking Deck Repairs/Maintenance (Multiple Projects)	320,000	Athletic Field Maintenance	125,000
Roof Replacement (Multiple Projects)	191,930	Parks Paving and Lighting/Reconstruction	278,000
Total Buildings	\$1,929,390	General Park Maintenance	80,000
Transportation		Lumos Fiber Network Connections at Parks and Recreation Facilities	22,000
Public Transit Improvements (GLTC)	\$146,478	Total Parks and Recreation	\$1,136,000
General Street Improvements	300,000	Miscellaneous	
Total Transportation	\$446,478	Radio Replacements	\$191,500
Economic Development		Total Miscellaneous	\$191,500
Downtown Development (Academy Center of the Arts) ¹	\$500,000	Reserves	
General Development Support	200,000	City Baseball Stadium Capital Maintenance Reserve	\$100,000
Total Economic Development	\$700,000	Snow, Streets, and Bridges Reserve	250,000
		Total Reserves	\$350,000

¹ For FY 2018 through FY 2020, the balance of the \$1,000,000 commitment is reflected in the Streetscape Improvement Project.



The FY 2018 Budget in Brief

FUNDING SOURCES

Pay-As-You-Go	\$1,655,377
Pay-As-You-Go: FY 2018 Proposed Tax Increase	2,220,810
Pay-As-You-Go: Fire Equipment Reserve	7,372
Pay-As-You-Go: Capital Maintenance Reserve	457,809
Pay-As-You-Go: Group Home Capital Needs Reserve	50,000
Pay-As-You-Go: Reallocated Funds from Heritage High School Reserve	362,000

TOTAL FUNDING SOURCES

\$4,753,368



The FY 2018 Budget in Brief

Airport Fund

- The Lynchburg Regional Airport is budgeted as a separate fund to clearly delineate its financial operations
- Cost center revenues will more than cover total expenditures of \$2.5 million. This represents a 2.2% change from the current year
- Airport revenues will exceed expenditures for the third straight year and will result in no General Fund subsidy for airport operations
- Instead, the approximately \$150,000 in operating surplus will be allocated to support capital pay-as-you-go investment in the airfield



The FY 2018 Budget in Brief

Fleet Services Fund

- The Fleet Services Fund is an internal services fund that manages the City's fleet of over 700 vehicles and equipment
- The total operating budget of \$7.3 million for Fleet Services is an increase of fifteen percent (15.0%), or \$951,319, from FY 2017





The FY 2018 Budget in Brief

Fleet Services Fund

- The proposed budget recommends replacing thirty-six (36) vehicles and assorted equipment in the General Fund, three (3) vehicles in the Water Fund, and two (2) vehicles in the Sewer Fund
- The total cost of vehicle and equipment replacement in FY 2018 will be \$3.9 million



The FY 2018 Budget in Brief

Water Fund

- Managed by the Department of Water Resources, the Water Fund operates as an Enterprise Fund and requires no subsidy from the General Fund
- Budget recognizes the impact of the new Bedford Water Resources Authority Contract
- Proposed Rate increase of 5.1%
- Operating expenditures and debt service are projected to increase from \$14.2 million (FY 2017 Adopted) to \$14.3 million (FY 2018 Proposed)
- Operating expenses are expected to total \$10.1 million with debt service of \$4.2 million
- One new proposed position – Civil Engineer II



The FY 2018 Budget in Brief

Sewer Fund

- The Sewer Fund is managed by the Department of Water Resources, operates as an enterprise fund and requires no subsidy from the General Fund
- No increase in sewer rates or monthly service charge
- Total revenues are projected to increase by approximately \$166,000, from \$22.2 million (FY 2017 Adopted) to \$22.4 million (FY 2018 Proposed)
- Projected total expenditures of \$22.5 million include \$12.1 million for operating expenditures, \$9.3 million for debt service, and a \$1.1 million transfer to capital for pay-as-you go items



The FY 2018 Budget in Brief

Stormwater Fund

- Stormwater Fund total revenues are projected to remain the same as FY 2017, at \$3.5 million
- This is due to no change in the \$4.00 per single family unit (SFU) which is the monthly stormwater management fee
- Complies with City Council's fund balance policy
- Investment in stormwater capital projects continues
- Also no change in the \$275,000 transfer from the General Fund to the Stormwater Fund to cover VDOT reimbursable stormwater expenses for work performed by the Department of Water Resources



The FY 2018 Budget in Brief

REAL PROPERTY TAX PROPOSED INCREASE

For Infrastructure Maintenance and Replacement

\$0.05 per \$100 of assessed value (\$1.11 to \$1.16)

Projected to generate \$2,562,643

LODGING TAX PROPOSED INCREASE

For Infrastructure Maintenance and Replacement

2.0% increase from 5.5% to 7.5% including the
current \$1 per room per night

Projected to generate \$692,000

\$2,220,810 to help close the Pay-as-you-go Capital Projects funding gap

\$650,000 for Long-Term "On-Time" Debt Financing Reserve

\$383,833 dedicated to a Capital Maintenance Reserve for future years

MEALS TAX PROPOSED INCREASE

For Improved Education Outcomes and Poverty Reduction

0.5% increase from 6.5% to 7.0%

Projected to generate \$1,100,000



Key Organizational Culture Initiatives

- Head, Heart, Hands
- Pride in Public Places
- Disney-like Customer Service





The FY 2018 Budget in Brief

Looking Ahead

- Compensation, Recruitment and Retention
- Poverty rate reduction
- Improve K-12 education outcomes
- Improve financial transparency
- Impact of reductions in federal domestic spending

*A Great Place to
Live, Work and Play*



EXCELLENT GOVERNMENT

BOND RATING

MOODY'S Aa²

STANDARD & POOR'S AND FITCH AA+

COMPLIANCE WITH

FINANCIAL POLICIES



*A Great Place to
Live, Work and Play*



SAFE COMMUNITY

DECLINING CRIME RATE

**DEVELOPMENT OF THE COMMUNITY
ACTION TEAM (CAT) TEAM**

*A Great Place to
Live, Work and Play*



NATURAL AND BUILT ENVIRONMENT

EXCELLENT PARKS

**COMPLETION OF
MIDTOWN CONNECTOR**

**COMPLETION OF
HERITAGE HIGH SCHOOL**



*A Great Place to
Live, Work and Play*



ECONOMIC DEVELOPMENT

**DOWNTOWN REVITALIZATION
PACIFIC LIFE (300 JOBS)
CONVERGYS (400 JOBS)**



*A Great Place to
Live, Work and Play*



VIBRANT COMMUNITY

**NO. 8 SPOT IN THE GALLUP-
HEALTHWAYS STATE OF
AMERICAN WELL-BEING 2016
COMMUNITY RANKINGS**

**THRIVING ARTS &
CULTURE COMMUNITY**





The FY 2018 Budget in Brief

Conclusion

- Next steps
- Re-examine revenues after April 1
- Public Hearings on April 4, 2017, 7:00 PM, Council Chamber
- Copies of the Proposed FY 2018 Budget are available at the Main Public Library and the Downtown Branch and at www.lynchburgva.gov
- Acknowledgements